MMS
ADVISORS
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June 6, 2003

Re: **Oles Envelope, LLC v. GTD Company, Inc., et al.**
Civil Action No. WMN 02-2017

Calculation of Equity Value Lost by Oles Envelope Corporation (The Parent Company of Oles Envelope, LLC) due to the acquisition of RO Envelope

Calculation of Expenses Incurred by Oles Envelope Corporation on behalf of or as a result of RO Envelope Post Acquisition Operations.

On August 30, 2002, we were engaged by Whiteford, Taylor and Preston, LLP to quantify the damages incurred by their client Oles Envelope, LLC ("Oles LLC") in connection with Oles LLC's acquisition of RO Envelope Company, Inc ("RO"); specifically damages resulting from the activities of its two former principals, Messrs. Oechsle and Robinson, and the ultimate closure of RO. Our findings are documented in our letter report dated October 11, 2002. In addition, we determined that the Parent Company, Oles Envelope Corporation ("Oles Corp"), sustained damages from Oles LLC's acquisition of RO.

Our analyses and calculations indicate that Oles Corp lost approximately $1.5 million of investor value that it expected to accrue from the Oles LLC acquisition of RO. In addition, Oles Corp expended a total of at least $890,000 on behalf of or as a result of RO's operations with the ultimate goal of protecting its investment. Thus, the Parent Company incurred total damages in excess of $2.3 million before any offset for certain salvaged equipment as a result of the activities of its two former principals, Messrs. Oechsle and Robinson, and the eventual closure of RO.

The elements of the damages are summarized below. A summary of the damages is presented on Exhibit A. Detail calculations are presented on Exhibits B through D as referenced below.

Investor Specific Valuation Components

Our analysis identified and quantified the investor value specific to Oles Corp. Investor value is defined as the value of cost savings and revenue enhancing opportunities that exist for a strategic investor in a company. We have established the value for the following Oles Corp-specific value-creating opportunities:

DEPOSITION EXHIBIT #5 Signorelli
800-631-6989

EXHIBIT
tabbies
B

Direct Sales Channel Benefits As a jet printer, RO purchased envelopes to customize for its customers. Oles Corp expected to provide approximately 65% of RO's envelope requirements as a result of the acquisition.

<u>Fulfillment of RO's Base Operation Requirements</u>: RO's average annual material requirements for the three years prior to the acquisition were approximately $2.6 million. Oles Corp expected to provide 50% of this material requirement at a 20% profit margin and 15% of the material requirement at a 30% profit margin ($1.7 million in revenues and $382,000 in gross margin).

Assuming a continuation of this historical revenue based margin, tax affected at 42% and then capitalized at an appropriate 20% required rate of return, results in a value of approximately $1.1 million.

Opportunities to Increase Revenue A primary driver of the decision to acquire RO was the opportunity to significantly increase RO's revenues and earnings. The revenue enhancement benefits were to be derived from expanding RO's product line to include the sale of envelopes as well as existing jet printing services and allowing RO's senior executives (Messrs. Oechsle and Robinson) to market these expanded products and services to their existing and identified prospective customers. A forecast prepared on September 23, 1999 (seven days before the acquisition) included annual revenue growth of twenty percent for the following four years. A customer list provided to Oles LLC by RO as part of the closing documents contained over four hundred contacts of which only approximately one hundred were also included in accounts receivable as of the acquisition date.

We calculated the value of the increased revenue forecast to Oles Corp by discounting the projected margin (cash flows) after taxes (42%) from envelope sales to RO, after adjustments to reflect the previous discussed historical basis value component, back to present value. We used a discount rate of 30% to reflect the additional risk inherent in revenue growth versus the established operations and cost savings from eliminating redundancies. This calculation results in an indicated value of approximately $646,000.

Gross Margin on Actual Material (Envelopes) Provided Oles Corp did provide some envelopes to RO (approximately $1.3 million in fiscal year 2000, $1.4 million in fiscal year 2001 and $400,000 in fiscal year 2002 before RO's operations were terminated). Accordingly, it is appropriate to reduce the expected investor value by the value accrued from the actual materials provided. We conservatively, relative to calculation of damages, used the same valuation assumptions used to calculate the investor value of the fulfillment of RO's base operation requirements, even though some of the actual material provided was finished envelopes in fulfillment of new RO sales opportunities.

This calculation results in an indicated value, and thus a reduction of Oles Corp's lost investor value, of approximately $292,000. See Exhibit B for a summary of the Investor Value calculations.

Expenses Incurred by Oles Envelope Corporation on Behalf of or Due to RO

Direct Cash Outlays Oles Corp paid approximately $249,000 for various expenses of or related to RO during the three years following the acquisition ($29,000, $111,000 and $109,000 during the fiscal years ended September 30, 2000, 2001 and 2002, respectively). These expenses include RO's salaries and wages, 401k contributions, workers comp insurance, building rent and auto expenses.

In addition, Oles Corp also supplied RO with envelopes to be used in the jet printing process and for the direct sale to its customers. Oles Corp incurred and funded costs associated with the manufacture of these envelopes. Oles Corp added a profit to these costs and passed them through to RO as intercompany charges for trade credit extended. We excluded the profit from this calculation even though this profit is the basis for the actual margin offset to Oles Corp's lost investor value discussed earlier in this letter report. This eliminates any debate over the effect on damages from the timing of when the profits were generated. RO owed Oles Corp approximately $464,000 for trade credit extended (at Oles Corp's cost, exclusive of any profit) as of September 30 2002 when Oles Corp closed RO.

Finally, Oles Corp incurred carrying cost (interest expense) on these direct cash outlays made for RO. We used average balances and average interest rates to calculate the carrying costs of approximately $125,000 resulting in total direct cash outlays of approximately $838,000. See Exhibit C for a summary of our calculations.

Excess Interest Expense and Related Fees Incurred Oles Corp's operations and balance sheet deteriorated as a result of the lack of returns on their investment in RO as well as the direct cash outlays made for RO. As a result, their bank restructured their Line of Credit twice in 2002, raising their interest rate from 3.95% to 5.75% in February and to 8.75% in July. (The Prime Rate remained unchanged at 4.75% from January through September 2002.) These increased interest rates resulted in Oles Corp incurring approximately $18,000 in additional interest expense on their Line of Credit after adjustment to exclude the direct cash outlays discussed above. The restructurings also resulted in approximately $34,000 in legal and bank fees for a total cost of $52,000. See Exhibit D for our calculation of excess interest expense incurred.

In summary, our analyses and calculations indicate an equity value for RO of approximately $1,464,000 to Oles Corp at the date of the acquisition. This value was lost

when RO was closed. Combined with the expenses incurred by Oles Corp on behalf of RO, Oles Corp sustained gross damages of $2,354,000.

We understand that Oles Corp has been able to salvage certain RO equipment value by an independent machinery and equipment appraiser at $270,000. Thus, Oles Corp's net damages are approximately $2,084,000.

Mihaly • McPherson • Signorelli, LLC partners are being compensated at our standard rate of $200 per hour. The Firm's compensation is not dependent on the opinions or conclusions developed, any testimony provided or the outcome of any litigation.

We reviewed the following documents as part of our analysis and calculations.

- Asset Purchase Agreement Binder (provided by WT&P)
- RO Purchase Analysis Prepared September 23, 1999
- RO Purchase Analysis Prepared April 29, 1999
- RO Tax Returns (1992 through 1998)
- RO Reviewed Financial Statements (1994 through 1997)
- RO Internally Prepared Financial Statements (1998 through August 1999)
- RO Income Statement Summary 9/2000, 9/2001 and 7/2002
- Oles Income Statement Summary (9/1997 – 9/2001, 7/2002)
- Oles 9/2000 Budget Summary
- Oles Corp Prepared Schedules of Cash Outlays and Related Interest Costs

My curriculum vitae was included as Exhibit B to the Oles, LLC Damages Report. I have served as an expert witness for Michele Trading Corporation in Michele Trading Corporation v. Rony Natanzon; Civil Action No. MJG-02-CV-1868 filed in the U.S. District Court for the State of Maryland. I was deposed in this litigation. The case settled in Michele's favor on July 15, 2002. Except for the above litigation, my curriculum vitae is current.

Mihaly • McPherson • Signorelli, LLC

Lawrence W. Signorelli, CPA
Principal

Exhibit A *Confidential Attorney Work Product*

Oles Envelope Corporation
RO Envelope Acquisition
Damages Calculation - RO Valuation Diminution

Summary

Strategic (Investor) Value (Exhibit B)	
Value of benefits accruing to a specific investor (Oles Envelope)	
Direct Sales Channel Benefits	
Oles provides 65% of RO's Material Requirements	
RO Historical Base of Operations	$1,110,000
Expected Revenue Increases	646,000
Value of Actual Revenue Realized	(292,000)
	1,464,000
Expenses Incurred by Oles on behalf of RO	
Direct Cash Outlays (Exhibit C)	838,000
Excess Interest Expense Incurred (Exhibit D)	52,000
	890,000
Total Expenses Incurred and Equity Value Lost	2,354,000
Orderly Liquidation Value of RO Equipment Salvaged [a]	(270,000)
Net Expenses Incurred and Equity Value Lost	$2,084,000

[a] *Prepared by an independent appraiser*

Exhibit B

Confidential Attorney Work Product

Oles Envelope Corporation
RO Envelope Acquisition
Damages Calculation - RO Valuation Diminution

Strategic (Investor) Value

Value of benefits accruing to a specific investor (Oles Envelope)

Direct Sales Channel Benefits - Base Operations
Oles provides 65% of RO's Material Requirements

RO's three-year average material requirements		$2,634,000
Oles' Margin is 20% on 50% of RO's material requirements		$263,400
Oles' Margin is 30% on 15% of RO's material requirements		118,530
		$381,930
Tax effected	42.0%	$222,000
Appropriate Equity Capitalization Rate		20.0%
Indicated Lost Investor Value		$\boxed{\$1,110,000}$

Exhibit B

Confidential Attorney Work Product

Oles Envelope Corporation
RO Envelope Acquisition
Damages Calculation - RO Valuation Diminution

Strategic (Investor) Value

Value of benefits accruing to a specific investor (Oles Envelope)

Direct Sales Channel Benefits - Expected Revenue Increases
Oles provides 65% of RO's Material Requirements
HTR and DDO freed to mine their list of 400 plus customers

		2000	2001	2002	2003	Terminal Value
Material Purchase Forecast at Acquisition		$3,308,569	$3,970,283	$4,766,790	$5,717,085	
Less Sustainable Material Purchases		(2,634,000)	(2,634,000)	(2,634,000)	(2,634,000)	
Incremental Material Purchases		$674,569	$1,336,283	$2,132,790	$3,083,085	
Oles' Margin is 20% on 50% of RO's material requirements		$67,457	$133,628	$213,279	$308,309	
Oles' Margin is 30% on 15% of RO's material requirements		30,356	60,133	95,976	138,739	
		97,813	193,761	309,255	447,047	
Income Tax	42.0%	41,081	81,380	129,887	187,760	
Cash flow to Equity Holders		56,732	112,381	179,368	259,287	$1,037,149
Present Value Factor	30.0%	76.92%	59.17%	45.52%	35.01%	35.01%
Indicated Lost Investor Value	$\boxed{\$646,000}$	$43,640	$66,498	$81,642	$90,784	$363,135

Exhibit B

Confidential Attorney Work Product

Oles Envelope Corporation
RO Envelope Acquisition
Damages Calculation - RO Valuation Diminution

Strategic (Investor) Value

Value of benefits accruing to a specific investor (Oles Envelope)

Present Value of the Margin on Actual Material Requirements Provided		**2000**	**2001**	**2002**
Material Requirements Provided		$1,260,000	$1,410,000	$400,000
20% Margin on 50% of RO's material requirements	76.9%	$193,846	$216,923	$61,538
30% Margin on 15% of RO's material requirements	23.1%	87,231	97,615	27,692
		281,077	314,538	89,231
Income Tax	42.0%	118,052	132,106	37,477
Actual Margin		163,025	182,432	51,754
Present Value Factor	20.0%	83.33%	69.44%	57.87%
Present Value of the Margin on Actual Material Requirements Provided		$135,854	$126,689	$29,950
Indicated Investor Value Realized		$\boxed{\$292{,}000}$		

Exhibit C *Confidential Attorney Work Product*

Oles Envelope Corporation
RO Envelope Acquisition
Damages Calculation - RO Valuation Diminution

Calculation of Direct Cash Outlays

	Expenses Incurred and/or Paid	Trade Credit [a] Written Off	Carrying Cost (Interest Expense)	Total
FYE 9/30/2000	$28,639		$22,035	$50,674
FYE 9/30/2001	111,297		49,113	160,411
FYE 9/30/2002	108,753	$464,455	53,778	626,987
	$248,690	$464,455	$124,926	$838,071

Interest Expense Calculation		**FYE 2000**	**FYE 2001**	**FYE 2002**
Beginning Interest Rate		8.40%	8.72%	5.15%
Ending Interest Rate		8.75%	5.85%	8.75%
Average Interest Rate		8.58%	7.29%	6.95%
Expenses Incurred and/or Paid				
FYE 9/30/2000		$1,228	$2,086	$1,990
FYE 9/30/2001			$4,054	$7,735
FYE 9/30/2002				$3,779
Trade Credit Extended [a]				
as of 9/30/2000	$485,287	$20,807		
as of 9/30/2001	$694,481		$42,973	
as of 9/30/2002	$464,455			$40,273
		$22,035	$49,113	$53,778

Total Direct Cash Outlays included in Oles' Line of Credit by Year

9/30/2000	$535,961	(FY 2000 Direct Cash Outlays of $50,674 plus Trade Credit Accounts Receivable due from RO on 9/30/00)
9/30/2001	$905,566	(FY 2001 and 2000 Direct Cash Outlays of $160,411 and $50,674, respectively plus Trade Credit Accounts Receivable due from RO on 9/30/01)
9/30/2002	$838,071	(Direct Cash Outlays including Trade Credit extended but not repaid at the time Oles closed RO)

[a] Trade credit is exclusive of Oles Envelope Corporation profit. See Expert Opinion Letter for further details.

Exhibit D

Oles Envelope Corporation
RO Envelope Acquisition
Damages Calculation - RO Valuation Diminution

Calculation of Increased Interest Expense and Related Fees as a Result of the Forced Restructurings of Oles' Secured Line of Credit Financing Caused by the RO-led Decline in Operating Performance

Date	LOC Balance	Less Direct Cash Outlays [a]	LOC Base	Interest Basis			Actual Rate	Base Rate	Actual Interest	Base Interest	Excess Interest
12/31/2001	$3,323,044	$905,566	$2,417,478	LIBOR	plus	2.50%	3.97%				
1/31/2002	$2,682,044	$898,066	$1,783,978	LIBOR	plus	2.50%	3.95%				
2/28/2002	$2,298,044	$890,566	$1,407,478	Prime	plus	1.00%	5.75%	3.95%	$6,744	$4,633	$2,111
3/31/2002	$1,973,044	$883,066	$1,089,978	Prime	plus	1.00%	5.75%	3.95%	$5,223	$3,588	$1,635
4/30/2002	$1,745,044	$875,566	$869,478	Prime	plus	1.00%	5.75%	3.95%	$4,166	$2,862	$1,304
5/31/2002	$2,079,044	$868,066	$1,210,978	Prime	plus	1.00%	5.75%	3.95%	$5,803	$3,986	$1,816
6/30/2002	$1,963,735	$860,566	$1,103,169	Prime	plus	1.00%	5.75%	3.95%	$5,286	$3,631	$1,655
7/31/2002	$2,151,735	$853,066	$1,298,669	Prime	plus	4.00%	8.75%	3.95%	$9,469	$4,275	$5,195
8/31/2002	$1,323,735	$845,566	$478,169	Prime	plus	4.00%	8.75%	3.95%	$3,487	$1,574	$1,913
9/30/2002	$1,499,735	$838,071	$661,664	Prime	plus	4.00%	8.75%	3.95%	$4,825	$2,178	$2,647
									$45,003	$26,727	$18,276
Bank and legal fees incurred in connection with the Restructurings											$34,000
											$\boxed{\$52,276}$

[a] Represents amounts on which we have computed interest. See Exhibit C - Calculation of Direct Cash Outlays. Balance reduced using the straight-line method.